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SUBJECT: Terrorism Finance: Turkish FIU Still Waiting for New Law; Possible Delay in FATF Review

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1.(SBU) Summary: The head of Turkey's Financial Investigative Unit told us parliamentary consideration of the new anti-money laundering law is slowly progressing, and the law is not controversial. He expects the Financial Action Task Force (FATF) mutual review on-site inspection in September but think FATF may push the review itself into 2007. In his public remarks Yarasli links the fight against financial crime to maintaining the competitiveness of the Turkish economy. The number of suspicious transaction reports filed rose from 290 in 2004 to 352 in 2005. End Summary.

MASAK Law

2. (SBU) Genc Osman Yarasli, president of the anti-money laundering agency MASAK, told us the long-awaited "MASAK law" is close to moving from a sub-committee of Parliament's Plan and Budget Committee to the full committee. The law will reorganize MASAK, explicitly criminalize terrorism finance (though other stalled legal reforms are needed to internationalize Turkey's definition of terrorism), provide safe harbor for filers of suspicious transaction reports (STR's) and increase MASAK's ability to exchange information with other international agencies. According to Yarasli, the law is not controversial. He said one reason for the slow pace of parliamentary consideration is that the legislation is interdisciplinary, requiring comment from multiple government agencies. The legislation first had to be considered by the EU Harmonization Committee before moving over to Plan and Budget. The law had been sent to the Parliament on June, 9 2005, and the EU harmonization Committee cleared the law on December, 29 2005. The Law is with the Planning and Budget Commission since January 1, 2006.

3. (SBU) Wearily resigned to a long wait, Yarasli explained the absence of the new law is holding up other MASAK efforts: (preparing for the FATF review by) putting in place implementing regulations, and conducting training programs for judges, prosecutors, police and financial institutions

on their respective roles under the new legislative framework. MASAK is gearing up for a series of such training programs to be held around the country, including more specialized courses for bank compliance officers at headquarters (mostly in Istanbul). Each bank has a compliance officer and, under the new law, insurance companies, foreign exchange houses and other financial intermediaries will also be required to have compliance officers.

FATF Review May be Delayed

¶4. (SBU) Yarasli confirmed press reports that FATF had sent Turkey a long questionnaire preparatory to the upcoming mutual review. He said Turkey would respond by June with the FATF on-site review team expected to come to Turkey in September. He professed no knowledge of who might be on the team. The review itself, however, might slip into 2007, he said, because FATF had concerns about trying to do three countries' reviews at the same time.

Interagency Cooperation

¶5. (SBU) According to Yarasli, only with the new law would MASAK be able to greatly strengthen interagency cooperation against terrorism finance. He said, for example, that MASAK lacked authority to receive intelligence information until the law is passed. Nevertheless, he agreed that the creation of a terrorism finance unit in the Intelligence

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Division of the Turkish National Police was positive, and cited other examples of increased interagency cooperation such as bank inspectors checking on bank compliance with MASAK regulations.

MASAK and Turkey's Economic Competitiveness

¶6. (SBU) Yarasli's vision of MASAK's role was to ensure Turkey's economy was competitive by keeping it as free of financial crime as possible. He pointed out that anti-money laundering was included in the EU's free movement of capital chapter, not under security. Rather than seeing his role as solely law enforcement, he linked the fight against financial crime to business confidence and attracting foreign investment. He said illegal activities hamper Turkey's competitive advantage.

¶7. (SBU) Yarasli believed that the banking community had become more sensitized to the need to keep Turkey's financial system free of financial crime. He contrasted the banking association's proactive work with MASAK in recent months with bankers' attitudes when MASAK was established in 1997. EU twinning advisor Mario Imparato has told us MASAK and the Bankers' Association are cooperating on a common set of guidelines for suspicious transaction reports, for example.

¶8. (SBU) Yarasli said he expected the number of STR's to increase substantially in 2007 after the law is passed (not surprisingly, given the lack of safe harbor under current law). MASAK's 2005 report states that STR filings increased from 290 in 2004 to 352 in 2005, of which all but three came from banks.

PKK

¶9. (SBU) When we updated Yarasli on USG efforts to enhance

cooperation with Turkey and western European countries against PKK networks, he said it was a good thing. On the other hand, as he has previously, Yarasli expressed skepticism that the Europeans would effectively cooperate with Turkey.

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